Manitoba Agriculture

OBTAINING A FARM LOAN

Information Update

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Financing the farm has drastically changed in the past few years. At one time, sufficient collateral for a loan was the most important factor in getting a farm loan. Now, an ag. lender must see that the farm can repay the loan from future cash flow. And it is up to you to demonstrate the strengths of your farm operation. And your financial knowledge of your farm is the key to doing this.

Ag. lenders are requesting more information with greater detail before granting or even considering a farm loan. This makes it all the more important to provide this information to your lender in a clear and concise form. The following steps make this process of providing the information easier.

Step One:

Do the homework on your present operation.

Every financial institution has its own farm financial planning guides, and the first step to a successful loan application is to accurately compile the information covered in these forms. Compiling this information should be done annually whether or not your credit needs for the upcoming year have changed from previous years.

Net Worth Statement: In the Manitoba Agriculture Information Update "Measuring Your Financial Progress", we describe why and how to properly complete a net worth statement.

Any changes in any part of the net worth statement from the previous year should be noted and the reasons for the change clearly outlined. For example, if your net worth dropped $100,000 from the previous year, what caused it? Is the drop in net worth due to operating losses or lower asset valuations such as deflation in land values?

This process of net worth comparison is very important. Even if you don't make the comparisons your ag. lender will. And it is always best to supply the explanations for any changes rather than allowing the lender to guess why a change has occurred.

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Net Farm Income Statement: Also in "Measuring Your Financial Progress", we describe why and how to properly complete a net farm income statement. As lenders rely heavily on net farm income figures, take care that the figures are accurate. Both you and the ag. lender will want to analyze your farm's "real" figures to see how the past year went as well as to make projections for next year.

Accurate inventories are of utmost importance in calculating the net farm income statement. The Manitoba Agriculture brochure, "Farm Profits Begin With A Clear Financial Picture", provides you with a simple system for keeping track of your farm inventories.

Step Two:

Do your projections for the upcoming year.

Using the previous year's farm income and expense information, you should then complete the projected net farm income statement and cash flow statement. Use "realistic figures", not to please your ag. lender but to be honest with yourself. It's your farm that has to repay any loan. In addition, unrealistic projections hinder your chances of obtaining the financing.

Step Three:

Discuss the loan basics with your lender.

Briefly discuss with your ag. lender the general terms and interest rate for the loan you're contemplating. This will allow you to use realistic loan repayment schedules in your projections.

An example of some terms to discuss are:

- Equipment Purchase - 3-5 years
  - interest rate
  - payment schedule
- Land Purchase - 10, 15, 20, 25 years
  - interest rate
  - amortized or non-amortized
  - anticipated payment

Step Four:

Document your farm financing proposal.

Now that you have done your homework and convinced yourself that the farm can afford the payments, it's time to make your presentation and loan request. Several items should be included in your farm financing proposal:

- Non-Financial Information:
  - brief history of family
  - brief history of farm operation
  - size and type of farm operation
  - any major production changes anticipated

- Financial information:
  - net worth statement
  - actual net farm income statement
  - projected net farm income statement
  - projected cash flow statement
- Loan request:
  - amount required
  - purpose of loan
  - repayment terms
  - collateral to be pledged

Step Five:

Arrange an appointment.

Arranging an appointment to discuss your financing proposal means the ag. lender will set aside the time and be prepared for you. As well, it may save you some frustration in planning to discuss your proposal with the lender only to find he/she is already tied up or has insufficient time to fully discuss the proposal.

Step Six:

Be prepared for the meeting.

Answer any questions and be prepared to provide any additional requested information. Because the ag. lender usually requires time to analyze your request, this planning ahead is important. Also, ask the lender when you can expect an answer to the loan request.

The above steps will enhance your working relationship with your financial institutions. Proper documentation, doing your homework, and providing as much information about your farm operation will serve two purposes.

1) Your ag. lender will have a better understanding of your farm operation, and
2) The lender will have the required information to "sell" your proposal to "Head Office."

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For further information, pick up a copy of these publications from your agricultural office:

- Farm Profits Begin With A Clear Financial Picture
- Inventory Taking - The First Step To A Clear Financial Picture
- Measuring Your Financial Progress